



## Memorandum

To: St. Louis City TIF Commission  
From: Larry Marks and Katie Medlin  
Date: October 15, 2012  
Re: Cost-Benefit Analysis of the Impact of the St. Louis Innovation District Tax Increment Financing  
Redevelopment Plan on Taxing Districts

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### OVERVIEW OF ANALYSIS

The purpose of this cost/benefit analysis is to respond to the criteria of RSMo 99.810 of the Real Property Tax Increment Allocation Redevelopment Act (the "TIF Act") to provide a cost /benefit analysis. The TIF Act requires that a cost/benefit analysis be performed:

...showing the economic impact of the plan on each taxing district which is at least partially within the boundaries of the Redevelopment Area. The analysis shall show the impact on the economy if the project is not built, and is built pursuant to the redevelopment plan under consideration. The cost-benefit analysis shall include a fiscal impact study on every affected political subdivision, and sufficient information from the developer for the (TIF) commission to evaluate whether the project as proposed is financially feasible; (RSMo 99.810)

The accompanying tables and narrative describe the impacts of "build" and "no build" scenarios on each taxing district in the Redevelopment Area that are anticipated to result from the St. Louis Innovation District Tax Increment Financing Redevelopment Plan (the Redevelopment Plan) pursuant to the TIF Act. As discussed in the Redevelopment Plan, new development is anticipated to occur in ten distinct redevelopment projects.

Redevelopment Project Area-1A (RPA-1A) is an irregular site that is generally bounded by Forest Park Parkway to the north, Sarah Street to the east, Clayton Avenue to the south, and the Solae and Cortex One buildings to the west. RPA-1A is to be redeveloped as the initial research and mixed-use area for the district. Construction in RPA-1A is expected to commence in 2013 and is anticipated to be completed by 2016.

Redevelopment Project Area-1B (RPA-1B) is an irregular site that is generally bounded by Interstate 64 to the south, Taylor Avenue to the west, Clayton Avenue to the north, and Newstead Avenue to the east. RPA-1B is to contain an office building and medical clinic. Construction in RPA-1B is anticipated to begin in 2013 and be completed by 2014.

Redevelopment Project Area-2A (RPA-2A) is generally bounded by Clayton Avenue to the north, Tower Grove Avenue to the west, Interstate 64 to the south, and Boyle Avenue to the east. RPA-2A will contain a new hotel, office space, and retail space. Construction in RPA-2A is anticipated to begin in 2014 and be completed within a year.

Redevelopment Project Area-2B (RPA-2B) is generally bounded by MetroLink to the north, Boyle Avenue to the east, Stix Elementary School to the south, and Newstead Avenue to the west. RPA-2B is to contain a mixture of office, retail, and restaurant development. Construction in RPA-2B is anticipated to begin in 2014 and be completed by 2020.

Redevelopment Project Area-3 (RPA-3) is an irregular site that is generally bounded by Forest Park Parkway to the north, the Rehabilitation Institute of St. Louis Building to the west, MetroLink to the south, and the Solae and Cor-

tex One buildings to the east. RPA-3 will contain renovated office space, and new residential units, restaurants, retail space. Construction in RPA-3 is anticipated to begin in 2014 and be completed by 2019.

Redevelopment Project Area-4 (RPA-4) is generally bounded by Forest Park Parkway to the north, the property line one parcel east of Boyle Avenue to the west, Duncan Avenue and the alleyway to the south, and the West End Lofts building to the east. RPA-4 will contain a new hotel, residential units, restaurant space, and retail space. Construction in RPA-4 is anticipated to begin in 2015 and be completed by 2019.

Redevelopment Project Area-5 (RPA-5) is generally bounded by Duncan Avenue to the north, the boundary of RPA-1A to the west, MetroLink right of way to the south, and Sarah Street to the east. RPA-5 will contain new and renovated office space. Construction in RPA-5 is anticipated to begin in 2017 and be completed by 2022.

Redevelopment Project Area-6 (RPA-6) is an irregularly shaped site that is generally bounded by Clayton Avenue and MetroLink right of way to the north, Boyle Avenue to the west, and Interstate 64 to the south and east. RPA-6 will contain new and renovated office space. Construction in RPA-6 is anticipated to begin in 2015 and be completed by 2024.

Redevelopment Project Area-7 (RPA-7) is generally bounded by Forest Park Parkway to the north, Sarah Street to the west, MetroLink right of way to the south, and Vandeventer Avenue to the east. RPA-7 will contain new construction residential units, restaurant space, retail space, and office space. Construction in RPA-7 is anticipated to begin in 2013 and be completed by 2019.

Finally, Redevelopment Project Area-8 (RPA-8) has an irregular boundary of Laclede Avenue to the north, the CET Building to the west, Forest Park Avenue to the south, and Vandeventer Avenue to the east. RPA-8 is to be redeveloped as a mix of new construction residential, restaurant, and retail space. Construction in RPA-8 is anticipated to begin in 2019 and be completed in 2022.

These projections are for a concept that is not yet constructed or leased and for a use that is new to this market. In order to project the performance of the Projects, assumptions must be made regarding the future events, such as assessment values, tax rates, project build-out, and/or absorption. These projections are based on currently available information and assumptions, including the Developer's pro forma, in order to build a cost benefit model. Development Strategies ("DS") believes they constitute a reasonable basis for its preparation. These projections are not provided as predictions or assurances that a certain level of performance will be achieved. The actual results will vary from these projections and the results may be material. Because the future is uncertain, there is risk associated with achieving the results. DS assumes no responsibility for any degree of risk involved. Neither this document nor its contents may be referred to or quoted, in whole or in part, for any purpose including, but not limited to, any official statement for a bond issue and consummation of a bond sale, any registration statement, prospectus, loan, or other agreement or document, without prior review and written approval by DS regarding any representation therein with respect to DS's organization and work product.

The financial projections contained herein are based on assumptions, projections, and information provided by sources considered reliable. DS neither verified nor audited the information that was provided by other sources. Information provided by others is assumed to be reliable, but DS assumes no responsibility for its accuracy or certainty.

External factors may influence these projections. Changes in the national, regional, and local economic and real estate market conditions and trends may impact the proposed Redevelopment Project. Changes may also be caused by legislative, environmental, or physical events or conditions. DS assumes no liability should market conditions change. These projections are not provided as predictions or assurances that a certain level of performance will be achieved or that certain events will occur. The actual results will vary from the projections described herein and the variations may be material.

## Overview of the St. Louis Innovation District

The St. Louis Innovation District will occupy approximately 168 acres in the Central West End community of St. Louis, immediately north of Interstate 64 and between the Washington University Medical Center and the campus of St. Louis University. The project is to be a mixed-use research, retail, and office development.

It is likely that a Community Improvement District (CID) or a Transportation Development District (TDD) will be established to help support the project. This special taxing district will generate up to a one-percent sales tax on all taxable sales within the CID or TDD.

### Local Revenue Sources

Local jurisdictions have six major sources of revenue, which are included in this analysis: real property taxes, personal property taxes, sales taxes (including restaurant sales and taxes on parking revenues), utility taxes, earnings and payroll taxes.

### Real Property Taxes

Commercial property in St. Louis City is assessed at a rate of 32 percent of appraised market value, and residential property is assessed at a rate of 19 percent of appraised market value.

Based on conversations with the St. Louis City Assessor's Office and a review of tax records for comparable properties in downtown St. Louis, and including an upward adjustment due to the expected superior quality of the new development, the analysis assumes the following assessed values for the St. Louis Innovation District:

<b>Assessed Values for St. Louis Innovation District (per sf)</b>		
<b>Development Type</b>	<b>Undeveloped</b>	<b>Developed</b>
Office/Lab/Research		\$50.00
Retail (Anchor)		\$20.00
Retail (Inline)		\$35.00
Restaurant & Entertainment		\$55.00
Hotel (per room)		\$22,000.00
Condominium (per unit)		\$34,000.00
Apartment (per unit)		\$11,000.00

Property is reassessed in odd years after construction is complete, and collections for each year are assumed to lag by a year to account for administrative delays; thus, property tax payments for the stabilized project increase in even years. Real property owned by nonprofit institutions and used for nonprofit purposes is not subject to real property taxes.

The analysis assumes that the assessed value of real property in the St. Louis Innovation District will have a biannual growth rate of 0.0 percent in 2013 and 1.5 percent in 2015. The biannual growth rate is expected to increase to 3.5 percent in 2023 and remain at that rate thereafter.

The following table presents the real property tax rates that are in effect for the St. Louis Innovation District in 2012.

<b>Real Property Taxes-per \$100 total assessment</b>	<b>2012 rates</b>
Missouri Blind Pension Fund	\$0.0300
St. Louis City	\$1.4848
Community College	\$0.2200
St. Louis School District	\$4.4071
Metro Zoo/Museum	\$0.2684
Sheltered Workshop	\$0.1460
St. Louis Library	\$0.5814
Mental Health	\$0.0876
MSD	\$0.0821
Community Children's Service Fund	\$0.1900
<b>Total</b>	<b>\$7.4974</b>

Of this amount, the \$0.0300 Missouri Blind Pension Fund Tax is not eligible for capture by the TIF.

In addition, a Commercial Surcharge Tax is collected on commercial properties; the amount is \$1.64 per \$100 of total assessed value. The Commercial Surcharge is not eligible for capture by the TIF. The commercial surcharge tax is not levied on property owned by a nonprofit institution and utilized for a nonprofit purpose. The funds collected through the Commercial Surcharge Tax are distributed to local jurisdictions according to the following formula:

<b>Commercial Surcharge Tax per \$100 total assessment</b>	
	<b>2012 rates</b>
State of Missouri	0.0090
Community College	0.0700
Metro Zoo/Museum	0.0730
Sheltered Workshop	0.0160
Library	0.0790
St. Louis School District	1.1740
MSD	0.0730
City of St. Louis	0.1460
<b>Total</b>	<b>\$1.6400</b>

Therefore, the total tax rate for the St. Louis Innovation District is \$9.1374 (\$7.4974 + \$1.6400) per \$100 of total assessed value for commercial properties.

### **Personal Property Taxes**

Personal property is assessed at the rate of 33.33 percent of appraised value. Personal property in Missouri consists primarily of business equipment and personal automobiles. The actual value of personal property is very difficult to estimate, as individual businesses vary widely. For the purposes of this analysis, and based upon an extensive review of detailed property records in other locations (particularly St. Louis County, Missouri, for which records are easily accessible), we assume that the assessed value of personal property is generally ten percent of the assessed value of real property. The assessed value of personal property is assumed to grow by the same rate as the assessed value of real property as described in the Real Property Taxes section of this report.

We believe that this figure represent conservative estimates, as they reflect the low- to middle-range of the records that we reviewed.

The applicable tax rate for personal property is \$7.4974 per \$100 of total assessed value. The details of this rate are the same as for real property tax, listed above. Personal property is not subject to the Commercial Surcharge Tax. Personal Property taxes are not captured by the TIF.

## Sales Taxes

Development Strategies has estimated an average sales per square foot for the retail, restaurant and entertainment components of the St. Louis Innovation District, based on information on similar properties in the area and a market study demonstrating market support for these elements of the development. The following table details the estimated retail and restaurant sales per square foot.

Estimated Sales per Square Foot	
<i>Development Type</i>	<i>Sales per SF</i>
Retail (Anchor)	\$215
Retail (Inline)	\$200
Restaurant	\$350

Based on updated project information, we estimate that the retail, restaurant and entertainment space will begin generating sales taxes at the beginning of 2015.

Retail sales in St. Louis City are subject to the following local sales taxes:

Local Sales Taxes	
	<i>2012 rate</i>
City-General Fund	1.375%
City-Transportation	0.500%
City-Capital Improvements	0.500%
MetroLink (Not captured by TIF)	0.500%
Metro Parks District (Half captured by TIF)	0.100%
Board of Education Transitional (Not captured by TIF)	0.666%
Recreation Centers	0.125%
Public Safety	0.500%
<b>Total</b>	<b>4.266%</b>

In addition to the taxes listed above, it is likely that up to a 1.0% CID or TDD sales tax will be imposed on all sales within the St. Louis Innovation District. However, revenues from a possible CID or TDD are not included in this analysis.

Of the local sales tax rate of 4.266%, <sup>3.1</sup>3.050% is eligible for capture by TIF (50% of the incremental taxes generated). Excluded is the Board of Education Transitional sales tax, Metrolink sales tax, and half of the Metro Parks District sales tax.

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In addition, restaurant sales (excluding alcohol sales) are taxed an additional 1.5 percent. Revenues on parking are taxed at an overall rate of 5 percent. These revenues flow to the City of St. Louis. Both sources are eligible for capture by TIF (50% of the incremental taxes generated).

A 4.225% sales tax is also charged by the State of Missouri.

Thus, the total sales tax rate in the St. Louis Innovation District is 8.491 percent for non-restaurant sales and 9.991 percent for restaurant sales.

Hotel  
Hotel  
taxes?

Local Sales Taxes	2012 rate
City-General Fund	1.375%
City-Transportation	0.500%
City-Capital Improvements	0.500%
MetroLink	0.500%
Metro Parks District	0.100%
Board of Education Transitional (Not captured by DESA)	0.666%
Recreation Centers	0.125%
Public Safety	0.500%
<b>Total</b>	<b>4.266%</b>

Note that all calculations of sales tax payments include the two percent timely payment discount, and calculations of local sales tax payments include the one percent collection fee that has been proposed by the State of Missouri. The one percent fee is not yet in effect.

It is assumed that retail and restaurant sales will grow an average of 2.5 percent annually.

### Earnings and Payroll Taxes

Earnings in St. Louis City are taxed at a rate of 1.0 percent,<sup>1</sup> and payroll at a rate of 0.5 percent, for a total effective tax of 1.5 percent.<sup>2</sup> Residents of the City, no matter where they work, and workers whose jobs are located within the City, no matter where they live, are subject to the tax. The payroll tax is not levied on nonprofit institutions.

The following table summarizes our assumptions regarding the number of workers within the St. Louis Innovation District and their earnings. The total represents the “minimum” development program.

<sup>1</sup> Corporate earnings taxes are also subject to the 1.0 percent earnings tax. However, because these earnings are extremely difficult to estimate, and the total amount of corporate earnings tax collected by the City is relatively small, we have not attempted to include this revenue source in the analysis.

<sup>2</sup> Employees of nonprofit organizations are subject to the earnings tax (1.0%), but their employers do not pay the payroll tax (0.5%).

Estimated Jobs				
	Employees per 1,000 sf	Annual Earnings per Job (2012\$)	Number of Jobs	Total Earnings (2012\$)
Office*	-	\$50,000	11,850	\$592,500,000
Lab*	-	\$80,000	1,072	\$85,760,000
Research*	-	\$93,000	953	\$88,629,000
Retail (Anchor)	0.9	\$30,000	293	\$8,790,000
Retail (Inline)	3.0	\$30,000	370	\$11,100,000
Restaurant/Entertainment	4.5	\$22,000	894	\$19,668,000
Hotel (per	0.5 per room	\$25,000	175	\$4,375,000
Condominium	2 per 100 units	\$30,000	10	\$300,000
Apartment	5 per 100 units	\$30,000	22	\$660,000
<b>Total</b>			<b>15,639</b>	<b>\$219,874,500</b>

*\*Office, Lab, and Research jobs projections provided by Developer.*

It is assumed that office, lab, research, retail, restaurant, hotel, and residential services wages will grow an average of 2.5 percent annually.

Based on current construction timing estimates, we assume that the development will be 100 percent complete by 2024. Completed office space is subject to an expected seven percent vacancy rate in later years of the project.

In addition, construction of the “minimum” development program will create approximately 1,830 annual equivalent construction jobs with an estimated total payroll of over \$102 million.

#### Utility Taxes

Utility revenues in St. Louis City are subject to a local franchise tax. Total utility revenues associated with the St. Louis Innovation District are estimated for the various project components in the following manner:

St. Louis Innovation District Project Component	Estimated Utility Revenues per Square Foot (2012\$)*
Office	\$2.75
Lab/Research	\$3.00
Retail	\$2.75
Restaurant/Entertainment/Event	\$3.00
Hotel (per room)	\$1,000.00
Condominium (per unit)	\$2,000.00
Apartment (per unit)	\$1,500.00

\* From “Assumptions” in Appendix A.

All utility sales for commercial operations are taxed at a rate of 10 percent.

St. Louis City Franchise Tax Rates (Approximate)	2012 rate
Commercial	10.00%
Residential	4.00%

It is assumed that utility sales will grow an average of 2.5 percent annually.

A detailed listing of all assumptions can be found in Appendix A.

## RPA-1A “BUILD” SCENARIO

RPA 1A is assumed to begin in 2013 and includes office, retail, and residential space. Appendix B provides details of the potential fiscal impact anticipated to result from implementing the Redevelopment Plan for RPA-1A and capturing 100 percent of the PILOTS (real property taxes) and 50 percent of the EATS (sales, earnings, payroll, and utility taxes) at levels set forth in the TIF Act. The impacts resulting from the redevelopment of RPA-1A are summarized below:

1. The total taxable assessed valuation of RPA-1A in 2012 was \$15,307,700. The taxable valuation is projected to increase to \$20,479,878 in 2016 after full development, which represents an incremental increase of \$5,172,178.
2. The total amount of annual redirected real property tax (PILOTS) of RPA-1A is estimated to increase from \$0 in 2013 (the first year when taxes on new investment will be collected) to \$2,510,906 in 2034 (last year when PILOTS will be captured by TIF).
3. New local sales taxes captured by TIF (50 percent, excluding MetroLink) are projected to grow from \$3,609 in 2013 to \$523,437 in 2035.
4. New local restaurant taxes captured by the TIF are projected to grow from \$0 in 2013 to \$197,887 in 2035.
5. Growth in utility taxes will parallel the projected construction of new facilities and renovations in RPA-1A along with the re-absorption of existing facilities. New utility taxes captured by TIF (50 percent) are projected to grow from \$21,849 in 2013 to \$547,601 in 2035, the last year for RPA-1A.
6. New local payroll and earnings taxes captured by the TIF are projected to grow from \$19,951 in 2011 to \$2,644,089 in 2035.
7. Collectively the PILOTS and EATS for RPA-1A are projected to increase from \$45,409 in 2013 to \$6,423,920 in 2035 (the last full year of the TIF).
8. The “commercial surcharge tax” (replacement for the former Merchants and Manufacturers Tax) is levied on all commercial development at a rate of \$1.64 per \$100 assessed valuation. This tax is not captured by TIF and flows directly to the various taxing jurisdictions that were part of the pool when this tax was established in 1985. The taxes that will flow through to the local taxing jurisdictions (excludes the state of Missouri) associated with RPA-1A are projected to increase from \$142,666 in 2013 to \$633,143 in 2035.
9. Personal property taxes also are not captured by TIF. It is projected that personal property taxes, which will flow directly to local taxing jurisdictions, will increase from \$140,305 in 2011 to \$947,949 in 2035.

Table 1A-1 provides a summary of the projected revenues for each of the taxing jurisdictions in RPA-1A. The figures represent the 50 percent of the incremental EATS that are not captured by TIF, as well as the surcharge and personal property taxes that are also not captured by TIF.

The tables in the Appendix provide annual estimates of the gross taxes to be received by each taxing jurisdiction under the “Build” and “No Build” scenarios.